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SUBJECT: KENYA: STILL IN THE HUNT FOR OIL AND GAS

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Sensitive-but-unclassified. Not for release outside USG channels.

[1](#). (SBU) Summary: Despite coming up dry in a \$100 million test well drilled earlier this year, Kenya's national oil company is pursuing additional exploration for oil and gas in the country. China's national offshore oil company is currently a big player, but has to decide soon whether to move from the study phase to actual drilling. Australian companies are also in the hunt for oil and gas. Meanwhile, the Kenyan government is prudently planning for improved transparency and accountability in revenue flows in the event of a major oil or gas strike. End summary.

Trying to Recover From a Bad Well

[2](#). (U) As reported refs A-B, prospects for a significant oil or gas discovery in Kenya were dealt a serious blow earlier this year when a \$100 million ultra-deepwater test well drilled by Australia's Woodside Energy came up completely dry. The failure may lead Woodside to abandon further efforts to find oil or gas in Kenya, and the its failure to find hydrocarbons cast a pall generally over the sector.

[3](#). (SBU) In a briefing May 16 for Government of Kenya (GOK) officials, attended by Econ/C, officials of the GOK-owned National Oil Company of Kenya (NOCK) refuted the perception that further exploration has stalled following the Woodside failure. NOCK Senior Geologist Peter Thuo noted the presence of surface oil seep near Wajir in the Mandera Basin, as well as small oil discoveries in the Tertiary Rift Basin and the Anza Basin (the latter is believed to be linked to the Central Rift system of hydrocarbon deposits extending into Sudan). While all of these are non-commercial discoveries, they strongly indicate the presence of additional hydrocarbon deposits, according to Thuo. Kenya, he said, is pushing ahead in search and exploration, and NOCK is currently negotiating 17 applications to perform exploration on 13 different blocks. Other salient points from Thuo's briefing follow below.

Who's In The Market and What They're Doing

¶4. (SBU) The Chinese: The China National Offshore Oil Company (CNOOC) has one-year study agreements in six blocks and a full production sharing contract (PSC) in a seventh. The study agreements will expire shortly, at which time CNOOC will have to negotiate PSCs or abandon the blocks. Thuo said if CNOOC exits, there are other companies interested in exploring the blocks. Under the PSC CNOOC has for block L-4, it is obligated to acquire 500 km of seismic data and drill two wells within two years, followed by another two wells in the subsequent two years.

¶5. (SBU) The Australians: Origin Energy of Australia has PSCs for two blocks and has already acquired 3,758 km of seismic data. Under its PSCs, it is obligated to drill one well in each of the two blocks within two years. Separately, Gippsland Petroleum has a contract on offshore block L-6 and has acquired 1,214 km of seismic 2D survey data. Fugro Airborne is also conducting an airborne gravity survey on Gippsland's behalf to acquire 4,474 km of additional seismic data in the shallow offshore and onshore portions of the block. Gippsland is obligated to either acquire additional seismic data or drill two wells over the next four years. Finally, Woodside Energy retains exploration rights in its two offshore blocks and will drill one additional well in each within three years, according to Thuo. (Note: As noted ref A, however, it's possible Woodside will re-evaluate its position in Kenya and opt to pay a penalty to the GOK to avoid having to drill any additional wells. End note).

¶6. (SBU) Others: Houston-based GX Technology (GXT) completed in March a large regional 2D seismic survey offshore Kenya, Tanzania, Mozambique, Madagascar, and the Seychelles. The survey is non-exclusive and GXT is selling the results to any interested oil and gas exploration companies. Norwegian firm Petroleum Geo-Services has been awarded a contract by NOCK to acquire 3,000 kilometers of seismic and magnetic data offshore in the Lamu sedimentary basin. Thuo noted that data accumulation is critical to attracting interest in exploring for hydrocarbons in Kenya. In the past year, he said, NOCK has hosted visits from 18 scientists from

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10 companies at its data center, and sold data packages worth close to \$50,000.

Moving Ahead on EITI

¶7. (SBU) The GOK, meanwhile, continues admirably to make preparations to submit itself to the disciplines of the Extractive Industries Transparency Initiative (EITI - see ref C) in the event of a major hydrocarbon discovery. In opening the May 16 briefing, Investment Secretary Esther Koimett of the Finance Ministry spoke of "the new scramble for Africa" in which the competition is not over land or colonies, but natural resources. To avoid the "resource curse," she and NOCK officials advocated persuasively for adoption and implementation of EITI systems and standards in Kenya to assure transparency and accountability in revenue flows stemming from any future oil or gas find. This, said Koimett, is a necessary first step in making sure any future oil wealth is used to enhance long-term economic development that benefits all Kenyans. She and NOCK officials repeatedly contrasted success stories, such as the United Arab Emirates and Botswana, with the failures, such as Nigeria, to point out the risks and opportunities Kenya would face in the event oil or gas is discovered. Kenya, they argued, needs to have the institutional framework in place before the money starts to roll in.

Comment

¶8. (SBU) NOCK is a small parastatal with few resources and even less political clout. However, its leadership is sophisticated and principled. The company appears to be doing a commendable job in attracting new interest in oil and gas exploration after the Woodside debacle, and it is also doing the right thing by pushing

for implementation of EITI. The only thing missing now: An actual
oil or gas discovery.
Ranneberger